

Fiscal Note

Fiscal Services Division



SF 31 – Earned Income Tax Credit Increase to 10% (LSB 1478XS)
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Fiscal Note Version – New

Description

Senate File 31 increases Iowa's current Earned Income Tax Credit (EITC) from 7.0% of the federal credit amount to 10.0% of the federal amount. The change is retroactive to January 1, 2011.

Background

Iowa Code is not currently fully coupled with federal EITC law. This Fiscal Note provides two estimates. One estimate assumes Iowa also couples with the current federal EITC and one estimate does not make that assumption.

The Iowa EITC is refundable, meaning Iowa EITC beneficiaries receive refunds if the EITC exceeds individual income taxes owed. According to the Department of Revenue, the current 7.0% Iowa EITC reduces net General Fund revenue by \$32.6 million (FY 2011 estimate).

Fiscal Impact

Increasing Iowa's refundable EITC from the current 7.0% of the federal credit to 10.0% will reduce Iowa General Fund revenue by the following amounts. The first column provides the estimate if Iowa does not fully couple with federal EITC law and the second column provides the estimate if Iowa does fully couple.

**General Fund Net Revenue Reduction
(dollars in millions)**

| | Assumes Iowa Does Not Couple | Assumes Iowa Couples |
|---------|------------------------------------|----------------------------|
| FY 2011 | \$0.1 | \$0.1 |
| FY 2012 | \$12.9 | \$14.7 |
| FY 2013 | \$12.0 | \$13.7 |
| FY 2014 | \$11.5 | \$11.5 |
| FY 2015 | \$11.6 | \$11.6 |

The Iowa EITC is refundable. Changes to refundable tax credits do not impact the local option income surtax for schools calculation.

Source:

Department of Revenue income tax model

/s/ Holly M. Lyons

March 14, 2011

The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the correctional and minority impact statements were prepared pursuant to Code [Section 2.56](#). Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
